

Message Text

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ACTION MMO-04

INFO OCT-01 ARA-10 ISO-00 EB-07 AID-05 CIAE-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 STR-04 AGR-10

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-----140836Z 126492 /11

R 131433Z MAY 77

FM AMEMBASSY BUENOS AIRES

TO USDOC WASHDC

INFO SECSTATE WASHDC 0468

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PASS EXIMBANK

E.O. 11652: N/A

TAGS: ECRP, AR

SUBJ: CERPT-0006: TRADE OUTLOOK REPORT

REF:(A) CERP SEC. C-0006; B) 76-BA-5366

1. SUMMARY: ARGENTINE IMPORT DEMAND WILL STRENGTHEN DURING THE BALANCE OF 1977 AND IN 1978. HOWEVER, HOPES FOR A STRONG RECOVERY IN 1977 HAVE NOT MATERIALIZED AS LOCAL INDUSTRY REMAINS RELATIVELY DEPRESSED. FOREIGN EXCHANGE RESERVES ARE AT AN ALL TIME HIGH AND IMPORT REGULATIONS HAVE BEEN LIBERALIZED CONSIDERABLY. THERE REMAINS A SUBSTANTIAL BACKLOG POTENTIAL OF DEMAND FOR CAPITAL GOODS. ARGENTINA HAS REESTABLISHED ITS CREDIT WORTHINESS AND IT IS AGAIN POSSIBLE TO OBTAIN EXPORT FINANCING FOR SALES IN ARGENTINA. THE SECURITY SITUATION IS IMPROVED. US AND OTHER FOREIGN BUSINESSMEN ARE AGAIN VISITING ARGENTINA IN LARGE NUMBER.

2. PREDICTIONS OF A STRONG ARGENTINE RECOVERY FROM RECESSION IN 1977 HAVE PROVEN PREMATURE. WHILE THE UNCLASSIFIED

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ECONOMY HAS BEEN TRENDING UPWARD SINCE LATE 76, THE INCREMENTS IN OUTPUT HAVE BEEN SMALL, AVERAGING MORE OR LESS ONE PERCENT ON AN ANNUAL BASIS DURING THE FIRST QUARTER OF CY 1977. THEREFORE, WHILE ARGENTINE IMPORTS OF CAPITAL GOODS ARE EXPECTED TO INCREASE DURING THE BALANCE OF 1977, HOPES FOR SUBSTANTIAL INCREASE IN IMPORT DEMAND ARE NOW FOCUSED ON CY 78. (TOTAL IMPORTS

IN 1977 ARE EXPECTED TO INCREASE TO ABOUT US\$3.9 BILLION, THE SAME LEVEL AS IN 1975). THIS, DESPITE THE FACT THAT GROSS FOREIGN EXCHANGE RESERVES ARE NEAR AN ALL TIME HIGH FOR ARGENTINA (US\$ 2.5 BILLION IN APRIL). AFTER A 1975 BALANCE OF PAYMENTS DEFICIT OF 1.1 BILLION THE 1976 BALANCE YIELDED A SURPLUS OF US\$124 MILLION AND 1977 IS EXPECTED TO YIELD A SURPLUS OF US\$250 MILLION. THE TRADE ACCOUNT SURPLUS IN 1976 WAS US\$845 MILLION AND IN 1977 IS EXPECTED TO BE APPROXIMATELY US\$500.

3. THE PRINCIPAL FACTOR SLOWING IMPORT GROWTH APPEARS TO BE THE STAGNATION OF DEMAND FOR MOST CONSUMER AND INDUSTRIAL PRODUCTS, BOTH THE RESULT OF DEPRESSED REAL WAGES NECESSARY TO COMBAT INFLATION. THE GOA HAS TAKEN MEASURES TO REACTIVATE THE ECONOMY. TO BEGIN, THE AGRICULTURAL SECTOR HAS BEEN REVITALIZED BY FREEING IT FROM PRICE CONTROLS AND ENABLING PRODUCERS TO RECEIVE INTERNATIONAL PRICES FOR THEIR PRODUCTS, IN THE HOPE THAT THE AGRICULTURAL SECTOR WILL LEAD THE REVIVAL. A 40 PERCENT INVESTMENT TAX CREDIT HAS BEEN APPROVED FOR INDUSTRY. HEAVY RELIANCE IS ALSO BEING PLACED ON THE STIMULATIVE EFFECTS OF A SERIES OF PROJECT LOANS FROM INTERNATIONAL FINANCIAL INSTITUTIONS WHICH WILL BE DISCUSSED IN FURTHER DETAIL BELOW. FINALLY THE GOA'S CY 1977 BUDGET CALLS FOR SIGNIFICANT ALLOCATIONS OF FUNDS TO PUBLIC SECTOR INVESTMENT. MINISTER OF ECONOMY JOSE MARTINEZ DE HOZ STATED RECENTLY THAT GOA INVESTMENT EXPENDITURES WILL TOTAL 13 PERCENT OF GDP IN 1977 - A UNCLASSIFIED

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SUBSTANTIALLY HIGHER PERCENTAGE THAN IN RECENT YEARS. GIVEN ALL THESE STIMULI, WHICH ARE FAR FROM INSIGNIFICANT, THE ECONOMY SHOULD CONTINUE TO BUILD UP MOMENTUM OVER THE NEXT YEAR AND A HALF.

4. WHAT SEEMS TO BE MISSING SO FAR, HOWEVER, IS A CONCERTED INVESTMENT EFFORT BY THE PRIVATE SECTOR. ABSENCE OF DEMAND MAY NOT BE THE ONLY FACTOR HOLDING UP THIS VITAL COMPONENT OF INVESTMENT. AN INDUSTRIAL PROMOTION LAW GIVING PROMOTIONAL BENEFITS TO NEW INVESTORS IS PENDING APPROVAL BY THE GOA. ITS APPROVAL AND PROMULGATION IS EXPECTING SOON AND MANY ARE HOPEFUL THAT THIS EVENT WILL STIMULATE THE PRIVATE SECTOR TO INVEST. CHAPLIN

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5. NOT ONLY HAS ARGENTINA'S FOREIGN EXCHANGE POSITION IMPROVED MARKEDLY BUT THE GOA'S IMPORT REGIME HAS UNDERGONE SUBSTANTIAL LIBERALIZATION OVER THE PAST YEAR. THE GOA MOVED GRADUALLY TO A UNIFIED EXCHANGE RATE: THEY HAVE ABOLISHED PRIOR IMPORT DEPOSITS; THERE HAS BEEN AN ACROSS THE BOARD TARIFF REDUCTION; TERMS IMPORTERS WERE REQUIRED TO OBTAIN FOR BOTH IMPORTS OF CAPITAL AND OTHER GOODS HAVE BEEN RELAXED. THE ADMINISTRATIVE PROCESS FOR OBTAINING PERMISSION TO IMPORT IS MUCH EASIER AS REQUESTS CAN NOW BE SUBMITTED INDIVIDUALLY, WHEREAS UNTIL RECENTLY FULL YEAR OR HALF

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YEAR PROGRAMMES HAD TO BE SUBMITTED FOR APPROVAL BEFOREHAND.

6. AS STATED IN LAST YEARS REPORT, THERE IS A CONSIDERABLE BACKLOG OF POTENTIAL OF DEMAND FOR CAPITAL GOODS BECAUSE OF THE YEARS OF POLITICAL AND ECONOMIC TURMOIL WHICH ARGENTINA HAS EXPERIENCED RECENTLY WHICH HAVE RESULTED IN POSTPONING OF MUCH NECESSARY INVESTMENT. THE MOST IMPORTANT SECTORS AND PRODUCT CATEGORIES AFFECTED ARE: POWER GENERATION EQUIPMENT; PETROCHEMICAL TWANT EQUIPMENT; PETROLEUM AND NATURAL GAS EXPLORATION EQUIPMENT; STEELMAKING EQUIPMENT; HEAVY CONSTRUCTION AND MINING EQUIPMENT; PULP AND PAPER EQUIPMENT; MACHINE TOOLS; TEXTILE EQUIPMENT; PORT HANDLING EQUIPMENT; COMMUNICATIONS EQUIPMENT; AND RAILROAD EQUIPMENT.

7. THOUGH THE GOA IS ATEMPTING TO DRASTICALLY REDUCE ITS BUDGET DEFICIT, PUBLIC INVESTMENT FUNDS ARE BEING MADE AVAILABLE AND WILL CONTINUE TO BE MADE AVAILABLE FOR THE POWER GENERATION, PETROCHEMICAL AND PETROLEUM AND NATURAL GAS SECTORS. IN THE PRIVATE SECTOR INDUSTRIES WHICH SEEM TO BE LEADING IN NEW INVESTMENT ARE PULP AND PAPER AND MACHINE TOOLS.

8. SEVERAL INTERAMERICAN DEVELOPMENT BANK PROJECTS WILL COME TO COMMERCIAL MATURITY OVER THE NEXT YEAR. THESE ARE IN THE PETROCHEMICAL AND PULP AND PAPER SECTORS. ADITIONALLY A LOAN TO FINANCE INDUSTRIAL DEVELOPMENT IN GENERAL IS UNDER CONSIDERATION. THE WORLD BANK FOR ITS PART HAS APPROVED A LOAN TO EXPAND ARGENTINA'S ROAD NETWORK AND IS CONSIDERING LOANS FOR EXPANSION OF PART CAPACITY AND REHABILITATION OF THE RAILWAY SYSTEM.

9. FINALLY TWO VERY IMPORTANT ADDITIONAL FACTORS FOR UNCLASSIFIED

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INCREASING EXPORTS TO ARGENTINA ARE NOW PRESENT. WITH INTERNATIONAL CONFIDENCE RESTORED IN ARGENTINA'S CREDIT-WOTHINESS THE US EXPORT-IMPORT BANK AND THE FCIA HAVE RESUMED LENDING, GUARANTEE AND INSURANCE ACTIVITY WITH RESPECT TO ARGENTINA. THIS EVENT IS PARTICULARLY IMPORTANT IN VIEW OF THE FACT THAT THE US SHARE OF THE ARGENTINE CAPITAL GOODS MARKET AT LEAST HAD BEEN SLIPPING DUE TO A MORE AGRESSIVE ATTITUDE ON THE PART OF THE US'S EAST AND WEST EUROPEAN AND JAPANESE COMPETITORS.

10. THE SECOND FACTOR IS SECURITY. THE GOA HAS MADE SUBSTANTIAL PROGRESS AGAINST TERRORISM OVER THE PAST YEAR. IT IS NOW POSSIBLE FOR BUSINESS VISITORS TO VISIT ARGENTINA WITH MINIMAL RISK, AS IS BEING DEMONSTRATED DAILY BY BUSINESSMEN FROM ALL OVER THE WORLD, INCLUDING THE

UNITED STATES.
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